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ABSTRACT

This report examines the four program activities that account for two-thirds of delinquent debt owed to the Federal government: the Department of Education's Federal Family Education Loan Program (FFELP) with $20 billion and the housing programs of the Departments of Housing and Urban Development (HUD), Veterans Affairs (VA), and Agriculture that total another $5 billion. Agency efforts to collect on delinquent debts were assessed and enhancements were identified to improve collections. The data collection period covered October 1995 through March 1997. Amounts of reported delinquencies for the four agencies changed with the largest increase being related to the FFELP which grew from $14 billion in 1992 to $20 billion in fiscal year 1995. Defaulted guaranteed education loans represented over half of the reported credit program delinquencies and about 40 percent of the federal government's total delinquent nontax debt. It was found that education debts are more difficult to collect than other types of federal loans because they are unsecured; delinquent cases are not referred until after initial collection, usually a 4-year period; and it is more difficult to locate highly transient borrowers. Summaries are appended that describe loan programs, efforts to improve debt collection, applicable laws, and amount of debt by agency. (JLS)

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United States General Accounting Office

GAO

Report to the Chairman, Committee on the Budget, House of Representatives

June 1997

DEBT COLLECTION

Improved Reporting Needed on Billions of Dollars in Delinquent Debt and Agency Collection Performance

ED 409 801

HE030 331

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United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-275282

June 2, 1997

The Honorable John R. Kasich
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

As agreed with your office, this report responds to your request that we review debt collection issues for nontax debts. It deals with outstanding lending program debt that is being directly managed by federal agencies and discusses programs under which federal agencies disbursed the loans as well as defaulted guaranteed loans for which agencies reimbursed private lenders and are now attempting to collect themselves. Generally, this debt is referred to as federal credit receivables. This report specifically focuses on (1) reported governmentwide data on credit receivables and delinquencies for federally managed loans, (2) the status of efforts at four major credit agencies to resolve delinquencies, (3) the dollars collected using various legislatively established collection tools, and (4) ways debt collection reporting can be enhanced to evaluate progress in collecting debt, and thereby assess agency efforts to meet the mandates of the Debt Collection Improvement Act of 1996. We did not verify the accuracy of the information provided to us by the Office of Management and Budget (OMB), the Department of the Treasury's Financial Management Service (FMS), or by the four agencies included in our review.

Results in Brief

Governmentwide reporting to the Congress indicates that the amount of debt federal agencies are directly managing has remained about $200 billion for the 5 years ended September 30, 1996. During that time, reported delinquencies for these federal credit receivables varied between $31 billion to $38 billion. Our report focuses on the four program activities that had about two-thirds of this delinquent debt: the Department of Education's Federal Family Education Loan Program with $20 billion and housing programs at the Departments of Housing and Urban Development (HUD), Veterans Affairs (VA), and Agriculture, which cumulatively had another $5 billion.

To gain a perspective on agency performance, we assessed the status of agency efforts to collect on delinquent debts. At September 30, 1995, the most recent data available on program-level collection performance at the

time of our field work, the housing agencies (1) were dealing with more than half of their delinquent debt through various involuntary collection tools, such as foreclosure and adjudication initiatives and (2) for almost a third of their delinquent debt, were attempting to contact borrowers to get them to resume payments on the original or revised terms. Education was experiencing similar challenges in collecting delinquent debt. Education and its agents, which include state or private non-profit guaranty agencies, were attempting to locate and confirm or revise repayment agreements associated with about 70 percent of Education's delinquent debt. Contacting borrowers with delinquent student loans is an especially difficult task since they tend to be younger and thus more transient. Also, collection on such unsecured loans tends to be more difficult because there is no collateral to be seized if borrowers do not pay. Delinquent student loans accounted for 40 cents of every dollar of delinquent nontax debt directly managed by the government and over half of the delinquent federal credit receivable debt.

We identified several enhancements that would facilitate valid assessments of agency collection efforts. Better data and key analyses are crucial aspects of federal efforts to measure success in accomplishing the charter for a more business-like credit management environment as set out by the Debt Collection Improvement Act of 1996. Progress in this area will be especially critical to the success of FMS as it assumes new debt collection management and reporting responsibilities under the 1996 act. But more importantly, such data is central to effective day-to-day management in terms of selecting collection strategies and deploying available staff and contract resources. Among the enhancements that we discuss are (1) developing a reporting framework to identify and assess the status of agency efforts to collect delinquent balances, (2) providing more information on how actively, successfully, and cost-effectively agencies are using individual collection tools, (3) reporting actual delinquent amounts that agencies are trying to collect and showing how those figures relate to amounts reported on agency financial statements, and (4) improving the reliability and consistency of reporting on delinquencies and credit receivables.

Background

With credit programs involving outstanding loan balances approaching a reported $1 trillion (including direct and guaranteed loans), the federal government is the nation's largest credit manager. In carrying out this responsibility, federal agencies are faced with the challenge of ensuring that this debt, much of which is managed day-to-day by private sector

lenders and state or private non-profit guaranty agencies, is collected from millions of borrowers, and that billions of dollars in delinquent debt are effectively pursued and collected.

Our review specifically focused on the $25 billion of delinquent credit program debt that four of the larger federal credit agencies were managing directly.

- The Department of Housing and Urban Development's Federal Housing Administration (FHA) Single Family and Multifamily Housing Loan Programs and Title I Program. The Single Family Housing program insures mortgages on one-family to four-family housing units. The Multifamily Housing program insures mortgages on projects such as rental properties of five or more units, housing for the elderly, hospitals, and nursing homes. The Title I Program insures loans for home improvements or the purchase of manufactured housing. These programs serve first-time home buyers with incomes that range from low to moderate, and the elderly and disabled who require special housing.
- The Department of Education's Federal Family Education Loan (FFEL) Program, which includes Federal Stafford Loans, subsidized and unsubsidized; Federal Parent Loans for Undergraduate Students (PLUS); and Federal Supplemental Loans to Students (SLS) (no new SLS loans were originated after July 1, 1994). The FFEL Program is the largest post secondary education guaranteed loan program of the federal government and its primary purpose is to increase post-secondary educational opportunities for eligible students.
- The Department of Veterans Affairs' (VA) Guaranty and Vendee Loan Programs. Under the Loan Guaranty Program, VA guarantees loans to veterans and current service personnel to purchase, construct, or improve homes. Through the Vendee Loan Program, direct loans are made to purchasers of VA-owned houses acquired as a result of defaults on guaranteed loans.
- The Department of Agriculture's Rural Housing Service (RHS) Single Family and Multifamily Housing Direct Loan Programs. Single Family Loans are made to low- and moderate-income families to purchase or repair homes in rural areas. Borrowers of single family loans are required to "graduate" from the direct loan program when their incomes are sufficient to afford private credit. Multifamily Housing Loans are made to provide moderate cost rental housing to persons of low and moderate incomes in rural areas.

The above programs represent about half of the reported $50 billion in reported delinquencies for credit programs and noncredit nontax programs as of September 30, 1995. Of the reported $50 billion, approximately $38 billion was attributable to credit programs. The residual, categorized as "nontax, noncredit," includes such things as fines, penalties, and overpayments associated with a variety of government functions.

At the end of fiscal year 1995,[1] the credit programs included in our review comprised 19 percent of reported outstanding direct loans[2] and 75 percent of reported defaulted guaranteed loans receivable.

How Credit Programs Work

Under *direct loan programs*, a federal agency generally makes a direct disbursement to an approved borrower and then services and collects on the loan. These loans may be secured, as in the case of the Department of Agriculture rural housing loan programs, or unsecured, as are Department of Education direct student loans. Under *guaranteed loan programs*, federal agencies rely on private sector lenders to originate and service loans within federal guidelines. All or a part of the interest and loan principal are guaranteed by the government in the case of borrower default. As with direct loans, guaranteed loans may be secured by property or unsecured. (For more information on the growth of guaranteed loan programs in recent years and on what happens when borrowers default on guaranteed loans, see appendix II).

In general, federal direct loan and loan guarantee programs have legislatively mandated provisions to accomplish certain social and economic results. However, because many federal loan programs are targeted at borrowers who, due to their financial situation, cannot otherwise obtain private financing, the government's risk is generally greater than that of private lenders. By their nature, many of these programs can be expected to result in a cost to the government—the cost of achieving a program's social or economic goals—and agencies are faced with achieving these goals in conjunction with good credit management practices. Costs are incurred on direct and guaranteed loans when

[1]Our review focused on selected programs at FHA, VA, RHS, and Education and for those programs, fiscal year 1995 amounts were the most recent data available when we performed our field work.

[2]Most of the remaining outstanding direct loans relate to the Department of Agriculture's farm loan program, which we have reviewed extensively in other reports and testimony. See Consolidated Farm Service Agency: Update on the Farm Loan Portfolio (GAO/RCED-95-223FS, July 14, 1995).

(1) interest rate or other subsidies are provided or (2) debts are not fully repaid and liquidation of any available collateral is insufficient to recover the unpaid balance. Whether or not a program is cost-effective depends largely on securing repayment and on the timeliness of those loans repayments. Therefore, within the objectives and provisions set out for each federal credit program, controlling and mitigating the risk of nonpayment are important, as are measuring and reporting on performance to hold agencies accountable for program results and costs. Figure 1 explains how failing to mitigate risks at any point during the credit management process—when first extending credit, when servicing accounts, or when recovering delinquent debt—can affect loan payment.

Figure 1: Credit Management Functions and Risks

Credit extension	This includes a review of the loan applicant's credit worthiness and compliance with program loan eligibility criteria. If a credit extension process does not provide the ability to detect prior failure, or current inability, on the part of the applicant to repay outstanding federal or federally guaranteed loans, the risk of nonpayment on new loans is increased.
Account servicing	This involves monitoring payment activity which enables an agency to "flag" overdue payments for special attention because if they are left unattended, the risk of nonpayment increases.
Recovering delinquent debt	Debt collection should include a fair but aggressive program to recover delinquent debt. Restoration of the debt to a current status is the primary goal or, if that is not achieved, maximum collection of available assets should be sought to offset the entire debt.

Differences in Credit Programs

It is important to note that differences among credit programs affect the validity of efforts to compare and contrast performance. In general, secured loans offer better recovery options than unsecured loans chiefly because delinquencies can be recovered by seizing or foreclosing on the asset securing the loan rather than by pursuing the borrower. By program design, some housing programs collect fees when the loan is originated to help cover the default costs of the program and generally do not record receivables or pursue shortfalls on loans after foreclosure. In contrast, because of the legislatively mandated structure of the FFEL Program, Education attempts to collect on all defaults, since there is no collateral to seize, and loan origination fees collected are not designed to cover all default costs. Other program differences and their effect on debt reporting are noted throughout this report.

Prior GAO Work and Legislative Initiatives Affecting Federal Credit Programs

Federal loan programs have been a major focus of GAO's High-Risk Program.[3] We have designated high risk areas involving loan programs at three of the four major credit agencies included in our review. Recent reports on our High-Risk Program discuss: the Department of Agriculture's farm loans, the Department of Education's entire student financial aid program, and the Department of Housing and Urban Development. Our audits, those by the inspectors general, and others, have consistently disclosed serious weaknesses in agency systems used to account for and manage receivables. Audits have shown that some information for credit and debt management is not accurate or complete.

Over the past 15 years, numerous legislative and other initiatives—some of which were in response to our recommendations—have strengthened agency debt collection efforts or its oversight, including the Debt Collection Act of 1982, the Debt Collection Improvement Act of 1996, OMB's nine-point credit management program, the Chief Financial Officers (CFO) Act of 1990, as expanded by the Government Management Reform Act (GMRA) of 1994, the Government Performance and Results Act (GPRA) of 1993, the Federal Credit Reform Act of 1990, and the establishment of the Federal Accounting Standards Advisory Board (FASAB). Among other things, these initiatives clarified and strengthened agency authority for collecting debt, provided the underpinning for improving financial and

[3]Our High-Risk Program, which began in 1990, represents a special effort to review and report on the federal program areas we considered high-risk because they were especially vulnerable to waste, fraud, abuse, and mismanagement. The effort has brought much needed focus to problems that were costing the government billions of dollars. In February 1997, we issued a series of reports on the status of efforts to address problems in designated high-risk areas (High-Risk Series GAO/HR-97-20SET, February 1997).

program management and accountability in federal agencies, and revised budget and accounting requirements for federal credit programs.

The Federal Credit Reform Act of 1990, in particular, changed the budgetary treatment of loans and loan guarantees so that the government could better measure and control its subsidy costs for loan programs. Under the act, agencies are required to estimate and budget for the full net present value cost of direct loans and loan guarantees, before credit is extended. Recovery of delinquent debt is a factor not only in determining the estimated cost of the loan program but also in controlling the cost of the program. Higher recovery rates for delinquent debt translate into lower program costs. The Federal Credit Reform Act of 1990 and the other initiatives are discussed in further detail in appendix III.

The Debt Collection Improvement Act of 1996

The Congress also just last year took an important step in improving debt collection efforts by expanding collection tools and authorities available to agencies. The Debt Collection Improvement Act of 1996, which we supported, allows the public dissemination of information regarding the identity of persons with delinquent nontax debt. In an effort to reduce future delinquencies, it also requires agencies to screen potential borrowers—except for disaster loan applicants—and requires denial of credit to anyone who is delinquent in repaying federal debt (except for tax debt). The 1996 act also calls for centralizing the servicing of debt that is more than 180 days delinquent at Treasury's FMS and designated collection centers. In certain circumstances, the act provides authority for agencies to retain and use a portion of collections, if appropriated. The act also transferred the responsibility to prepare annual reports to the Congress regarding agency debt collection efforts from OMB to FMS. A more extensive description of this new legislation and the expanded responsibilities accorded FMS are provided in appendix IV.

Scope and Methodology

In carrying out our review, we analyzed debt collection information available from OMB and the agencies included in our review for fiscal years 1992 through 1996. Amounts for fiscal year 1995 were used to show the status of delinquent debt for the selected FHA, VA, RHS, and Education programs discussed in this report because it was the most recent information at the program-level available at the time our fieldwork was done. Because preliminary governmentwide debt collection information for fiscal year 1996 just became available in February 1997, we included this data in our report where possible. We also reviewed the Debt

Collection Act of 1982, the Debt Collection Improvement Act of 1996, and other significant applicable legislative and regulatory provisions affecting the programs included in our review. We analyzed information in the Analytical Perspectives section of the Budget of the United States Government Fiscal Year 1997 and Fiscal Year 1998 and other selected program data used by agencies to manage their credit programs.

To determine progress toward resolving outstanding delinquent debt in the programs reviewed, we analyzed data provided by agency officials describing actions taken to resolve delinquent debt. We did not verify the accuracy of the information provided to us by OMB, FMS, or the four agencies included in our review. We did, however, consider the results of financial statement audits, and sought to determine whether agencies reported debt collection information on a consistent basis, for the agencies included in our review.

We conducted our work from October 1995 through March 1997 in accordance with generally accepted government auditing standards. Details on the scope and methodology of this review are included in appendix I.

We requested comments on a draft of this report from the Department of the Treasury; the Office of Management and Budget; and the Departments of Agriculture, Housing and Urban Development, Veterans Affairs, and Education. At a joint meeting on April 17, 1997, we received oral comments from those agencies. Their comments are discussed in the "Agency Comments and Our Evaluation" section of this report.

Reported Credit Receivables and Delinquencies

OMB's data showed that as of September 30, 1996, federal agencies were responsible for directly managing about $204 billion of the approximately $1 trillion attributable to government lending programs. The federally managed segment of the overall credit portfolio (credit receivables) included (1) $164 billion of direct lending and (2) $40 billion of defaulted guaranteed loans for which agencies had reimbursed private lenders and were now trying to collect directly from borrowers.

Of the total reported $51 billion of governmentwide delinquencies, about $36 billion (down from $38 billion in fiscal year 1995) was associated with the federal credit programs. The remaining $15 billion of delinquencies were nontax noncredit receivables resulting from such actions as grant overpayments and civil monetary fines.

The numbers reported indicate that total credit receivables and delinquencies on agency books were steady from 1992 to 1996. As discussed later in this report, caution must be exercised in using this data for comparison or analytical purposes because agencies did not uniformly report data and reliability issues have surfaced during audits of agency financial statements.

Receivables

Table 1 shows the reported credit receivables from fiscal year 1992 through fiscal year 1996. For financial reporting purposes, credit agencies wrote off about $20 billion of credit-related debt during these years including: $3 billion in fiscal year 1992, $3 billion in fiscal year 1993, $8 billion in fiscal year 1994, $3 billion in fiscal year 1995, and $3 billion in fiscal year 1996. As discussed later in this report, although the write-offs allow financial statements to depict amounts the agency reasonably expects to collect, some agencies continue to pursue amounts that have been written off.

Table 1: Credit Receivables Reported by OMB for Fiscal Years 1992 Through 1996

Dollars in billions

	Fiscal year				
Credit receivables	**1992**	**1993**	**1994**	**1995**	**1996**
Direct loans	$157	$157	$161	$160	$164
Defaulted loan guarantees	49	48	37	44	40
Total	**$206**	**$205**	**$198**	**$204**	**$204**

Source: Debt collection reports and FMS.

Table 2 shows these same reported credit receivables for fiscal years 1992 through 1996 by lending agency. As the table indicates, most of these receivables belonged to the Department of Agriculture. We extensively reviewed most of Agriculture's receivables in our reports, entitled Consolidated Farm Service Agency: Update on the Farm Loan Portfolio (GAO/RCED-95-223FS, July 14, 1995) and Farm Service Agency: Update on the Farm Loan Portfolio (GAO/RCED-97-35, January 3, 1997).

Table 2 also shows an $18 billion increase in Education receivables between fiscal years 1994 and 1996. This was primarily the result of (1) $12 billion in loan growth from fiscal years 1994 to 1996 for the direct loan program, which was not part of our review,[4] and, as explained later,

[4]The direct loan program at Education was started in 1994 and was not included in our review because, as a new program, it did not have significant delinquencies.

(2) Education increasing the recorded net financial value of its receivables based on the audit of its fiscal year 1995 financial statements.

Table 2: Credit Receivables Reported by Lending Agency

Dollars in billions

	Fiscal year				
Agency	**1992**	**1993**	**1994**	**1995**	**1996**
Department of Agriculture	$108	$108	$111	$109	$104
Agency for International Development	16	16	16	16	15
Department of Housing and Urban Development	21	21	21	20	16
Small Business Administration	6	7	9	10	10
Department of Education	15	13	14	24	32
Department of Veterans Affairs	3	3	3	3	3
Export Import Bank	9	8	6	7	9
All other agencies[a]	28	29	18	15	15
Total	**$206**	**$205**	**$198**	**$204**	**$204**

[a]Amounts for 1992 and 1993 include $10 billion and $8 billion, respectively, in accrued interest that were not distributed among agencies until 1994.

Source: Debt collection reports and FMS.

It should be noted that the credit programs at FHA, VA, RHS, and Education that we reviewed in more detail represent only a portion of the amounts in table 2. Table 3 identifies the credit receivables for the programs we reviewed as of the end of fiscal year 1995, which was the latest data available for the programs included in our review.

Table 3: Credit Receivables for Programs Reviewed for Fiscal Year 1995

Dollars in billions

Program reviewed	**Credit receivables**
Education: FFEL Program	$20
HUD—FHA: Single and Multifamily Housing and Title 1 Loan Programs	10
Agriculture—RHS: Single and Multifamily Housing Loan Programs	30
Veterans Affairs: Guaranty and Vendee Loan Programs	3
Total	**$63**

Source: Agencies' Report on Receivables Due From the Public.

Delinquencies

Table 4 shows that from fiscal year 1992 to fiscal year 1996, reported delinquencies on credit receivables started and ended at $36 billion with interim fluctuations. At September 30, 1996, $26 billion, over 70 percent of the credit receivable delinquencies, was attributable to defaulted loan guarantees, primarily student loans. The remainder was attributable to direct loans. Reported delinquencies for the programs we reviewed accounted for about $26 billion (two-thirds) of the $38 billion in delinquent credit receivables managed by federal agencies at September 30, 1995.

Table 4: Delinquent Credit Receivables Reported by OMB for Fiscal Years 1992 Through 1996

Dollars in billions

	Fiscal year				
Loans	**1992**	**1993**	**1994**	**1995**	**1996**
Direct loans	$11	$10	$12	$10	$10
Defaulted loan guarantees	25	21	22	28	26
Total	**$36**	**$31**	**$34**	**$38**	**$36**

Source: Debt collection reports and FMS.

On the surface, delinquencies from defaulted guaranteed loans appear to be a greater problem than those for direct loans. However, it is not possible to calculate the percentage of guaranteed loans that are delinquent because, according to OMB, no governmentwide data exists on the status of delinquencies for the $760 billion of guaranteed loans currently being serviced by private lending institutions. Without this information, reliable comparisons of delinquencies for direct and guaranteed loans are not possible. See appendix II for an analysis of guaranteed loans outstanding.

While the amounts of reported delinquencies for the programs changed at each of the four agencies included in our review, the largest change related to Education's Federal Family Education Loan Program, which grew from $14 billion to $20 billion from fiscal years 1992 to 1995. The major part of this increase was a result of Education increasing the net financial value of its receivables by $5.6 billion based on an independent audit of its fiscal year 1995 financial statements. Specifically, the audit revealed that Education should recognize a receivable for expected collections from loans previously considered uncollectible.

The changes in the amounts reported as delinquent for fiscal years 1992 through 1995 at the three housing agencies included in our review are highlighted below. More specific information on the status of collection

efforts of the housing programs and Education are discussed in the next section of this report.

- FHA's reported delinquencies declined from $2.6 billion to $2.3 billion due to loan sales, loan restructuring, foreclosures, and property dispositions. In March 1994, FHA began an aggressive program to sell defaulted FHA-insured single and multifamily mortgages. This initiative was undertaken as part of HUD's overall reinvention efforts.[5] As discussed later in this report, however, FHA officials acknowledged that reported delinquencies would have been significantly higher if they were consistent with FMS criteria.
- VA's reported delinquencies declined from $2.2 billion to $1.5 billion due to pre-foreclosure loan servicing activity, debt waivers and the Veterans Home Loan Indemnity and Restructuring Act of 1989. Under this act, borrowers pay a higher funding fee to cover defaults. VA does not pursue any remainder due on the loan after foreclosure.[6] Thus, the delinquencies in VA's portfolio primarily represent efforts to collect on defaults resulting from pre-1990 loans. A VA official said that the amount of delinquencies should continue to decline because few new housing delinquencies are being added, allowing VA to concentrate on resolving older delinquent debt.
- RHS' reported delinquencies stayed steady at about $1.2 billion during the 4-year period. This amount is attributable solely to RHS' direct lending program.

In addition, our January 1997 report[7] on farm loans showed that reported delinquencies had dropped from 28 percent to 23 percent during fiscal year 1996, largely due to a write-off of $1.1 billion of interest and principal during the year. As noted in the overview report (GAO/HR-97-1, February 1997) for our series of reports on high-risk federal programs, the Congress passed the Federal Agriculture Improvement and Reform Act of 1996, which made fundamental changes in loan-making, loan-servicing, and property management policies. Agriculture is still in the process of implementing the mandated reforms and their impact on the loan portfolio's financial condition will not be known for some time.

[5]For more information about HUD's reinvention program, see High-Risk Series: Department of Housing and Urban Development (GAO/HR-97-12, February 1997).

[6]Except when fraud or misrepresentation is proved.

[7]Farm Service Agency: Update on the Farm Loan Portfolio (GAO/RCED-97-35, January 3, 1997).

Status of Agency Efforts to Resolve Delinquencies

We obtained information on efforts to resolve delinquencies from the four agencies included in our review and grouped their efforts under four general categories:

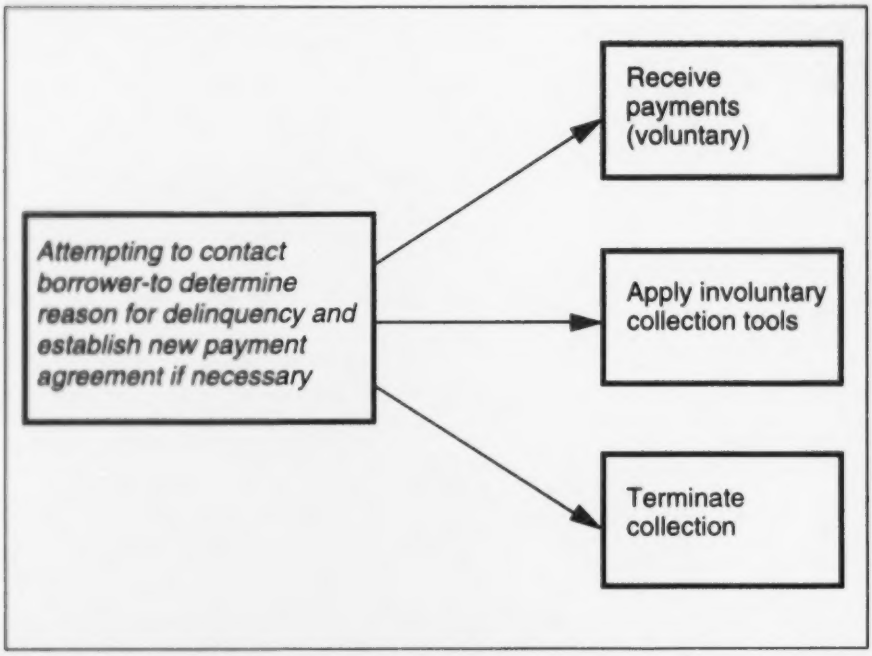
- attempting to contact delinquent borrowers to seek resumption of voluntary payments by confirming or rescheduling loan terms,
- receiving payments under those agreements,
- applying involuntary collection tools if payment is not made voluntarily, and,
- deciding whether or not to terminate collection activity.

Agency debt collection officials agreed that categorizing collection action in this manner would be useful for assessing progress in collecting delinquent debt.

Description of Collection Phases

For internal management purposes, agencies tracked delinquent debt using various formats and phases. A breakdown of delinquent debt on a uniform basis according to where it is in the debt collection process is useful to determine the status of efforts at agencies to resolve delinquencies. Such a breakdown can serve as an initial framework by those responsible for overseeing agency and governmentwide credit management to identify where backlogs of work may be occurring or factors that may be preventing timely debt resolution. Figure 2 illustrates, on a very general level, the debt collection process. A more detailed explanation of each activity follows.

Figure 2: Major Debt Collection Activities


Receive payments (voluntary)
Attempting to contact borrower-to determine reason for delinquency and establish new payment agreement if necessary
Apply involuntary collection tools
Terminate collection

Attempting to Contact Borrowers

Debt collection activity is to be initiated when a borrower does not make a scheduled payment. Since most loan payments are received from borrowers who have been routinely making payments, the ultimate goal is to restore delinquent loans to a current status. The first step involves contacting the borrower to determine the cause of the delinquency, whether the cause was a temporary or permanent condition, and whether the borrower is capable of resuming timely voluntary payments under the original or rescheduled loan terms. These contacts and the associated procedures are intended to give the borrower the opportunity to resume making timely payments. Sometimes the reason for the delinquency can not be readily determined because the agency has difficulty locating the borrowers due to missing or incorrect names, addresses, or social security numbers. Also, borrowers sometimes do not acknowledge attempts to contact them.

Depending on the reason for the borrower not making payments, the agency has several options. If the cause of the delinquency is a temporary condition, the agency may negotiate a repayment agreement for the full liability or lesser amounts. The agency can turn to involuntary collection techniques if efforts to work out a repayment agreement with the borrower are unsuccessful. Depending on program policy, if the borrower

cannot currently pay or has no assets to offset, collection actions may be suspended or terminated.

Delinquent Debt Being Repaid

When borrowers resume payments on formerly delinquent debt, some agencies reclassify it as current; others leave it classified as delinquent for the life of the loan. Regardless of how it is classified, for installment loans such as the ones included in our review, the repayment period may extend over a long period of time (up to 30 years, depending on loan terms). This category also includes loans subject to moratoriums under which payments can be deferred for up to 2 years.

Involuntary Collection Tools

If the agency cannot collect either under the original payment terms or under modified terms as discussed above, more aggressive collection actions can be attempted, including the following.

- *Offsets*: Tax refund offsets allow the agency, in coordination with IRS, to offset (withhold) delinquent amounts from a debtor's income tax refund. If the debtor is a federal employee, an agency can arrange to withhold 15 percent of his or her disposable income. Agencies can also use administrative offsets, which allow them to withhold other types of payments due the debtor from the federal government, such as retirement pay.
- *Foreclosure*: If the loan is secured by property, the government, or its agent, may seize the mortgaged property. Foreclosure terminates all borrower rights in the mortgaged property.
- *Adjudication*: This refers to delinquent debt that is in an administrative appeals process, being litigated by the agency or the Department of Justice, or being collected by the Department of Justice.
- *Bankruptcy*: The agency may become involved as a creditor in bankruptcy proceedings.[8]

FMS policy stipulates that if either litigation or bankruptcy is being pursued, the agency cannot pursue offsets.

Terminating Collections

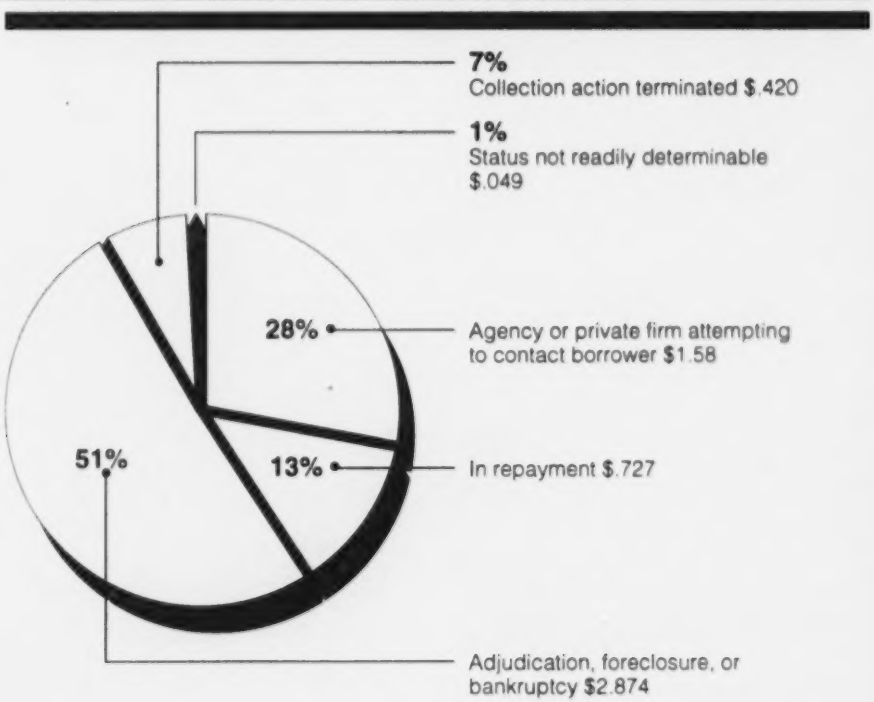
When the cause of the delinquency is permanent, such as permanent disability of the borrower, debt collection efforts are sometimes terminated. If the debtor is deceased, the agency is to file a claim against the debtor's estate for liquidation of the debt. Debt at this stage also includes amounts being considered for write-off.

[8]Bankruptcy is initiated by the borrower and therefore is not an agency tool. We have included it in this section because OMB tracks debt in bankruptcy along with adjudication and foreclosure.

Collection Efforts of Agencies Included in Our Review

For the housing agencies included in our review, figure 3 shows the status of efforts to collect delinquent debt at the end of fiscal year 1995. We present data for the three housing programs and student loan program separately because of the different nature and the status of the debt. A separate analysis for each agency follows.

Figure 3: Distribution of Housing Delinquent Debt as of September 30, 1995 (Dollars in billions)



Source: Reports on Receivables Due from the Public and other agency schedules.

Federal Housing Administration

Table 5 shows the distribution of FHA's reported delinquent debt for debt collection activities related to the Single Family, Multifamily, and Title 1 housing programs as of the end of fiscal year 1995.

Table 5: Distribution of FHA's Delinquent Debt as of September 30, 1995

Dollars in millions

Collection activity	Amount
Agency or private collection firm attempting to contact borrower	$380
In repayment	—
Adjudication, foreclosure, or bankruptcy	1,784
Collection action terminated or suspended	87
Status not readily determinable	49
Total	**$2,300**

Source: FHA.

According to FHA officials, the $380 million relates to Title I delinquent loans for mobile homes or for improvements to existing homes. Comparable data for single and multifamily debt were not readily available.

FHA does not list any delinquent debt in the repayment status category. Debt being paid in accordance with original or rescheduled loan terms is reclassified as current.

Over 70 percent of FHA's delinquent single family and multifamily debt is in adjudication, foreclosure, or bankruptcy. Of the total $1.784 billion in these categories, according to FHA reports, $576 million relates to foreclosures on multifamily loans and $600 million relates to adjudication of single family debt.

FHA identified $87 million being considered for termination. FHA explained that this debt represented Title I cases that had cycled through all phases of its debt collection process with no resulting recoveries. FHA holds this kind of debt in a special inventory for up to 3 years and then liquidates it through sale or write-off.

Veterans Affairs

Table 6 shows the distribution of delinquent debt for VA housing and nonhousing programs according to the debt collection activities. Although collection activity for the individual programs was not readily available, VA officials told us that $2.18 billion total delinquent debt represents $1.5 billion of delinquent housing loans (VA Guaranty and Vendee loan programs) and $.68 billion pertaining to non-housing programs such as the compensation and pension programs.

Table 6: Distribution of VA's Delinquent Debt as of September 30, 1995

Dollars in millions

Collection activity	Amount
Agency or private collection firm attempting to contact borrower	$1,200
In repayment	420
Adjudication, foreclosure, or bankruptcy	230
Collection action terminated or suspended	330
Status not readily determinable	—
Total	**$2,180**

Source: VA Debt Management Center.

VA officials informed us that most of VA's delinquent debt is attributable to housing loans that were made before 1990. Prior to that time, VA billed borrowers who lost their homes through foreclosure for residual amounts not recovered through the sale of the property. The Veterans Home Loan Indemnity and Restructuring Act of 1989, as amended, restructured the program to require borrowers to pay up-front fees, ranging from 0.5 to 3 percent of the loan, to help compensate for defaults. For loans closed after December 31, 1989, amounts not recovered through the foreclosure and/or sale of the property to a third party have not been recorded as a receivable or pursued, unless fraud or misrepresentation is proved.

Most of the $1.2 billion in the first stage of collection represents debt referred to private collection firms. If VA cannot locate the borrower, it uses two major private collection firms to contact the debtor and work out repayment terms. If these firms cannot contact the borrower, VA will consider writing off the debt. One reason for debt in this category is that VA is legislatively prohibited from using tax refund offsets, administrative offsets, and salary offsets in pursuing collections on delinquent housing loans in certain circumstances.

VA reported that the loan terms for $420 million in delinquent debt were rescheduled, for example, by reducing monthly payments and extending the repayment period. VA typically negotiates monthly payment plans over 1 to 3 years, depending upon the borrowers' financial condition. Longer terms are negotiated for very large debts.

VA reported $230 million in adjudication or bankruptcy. Over half the debt in this category represents amounts for which adjudication actions were being pursued, after the failure of other collection actions. The remaining debt represents amounts for which the borrower had filed bankruptcy and

VA was waiting to secure a portion of the payment due, pending completion of bankruptcy proceedings.

Two-thirds of the $330 million in the terminated or suspended phase represents amounts that have been returned to VA from private collection firms or the Department of Justice as uncollectible. The remaining amounts represent debts owed by borrowers who died and for which VA is awaiting receipt of death certificates and debt that was suspended because the borrower is unemployed, in prison, or currently unable to pay.

Rural Housing Service

Table 7 shows the distribution of RHS' delinquent debt according to the debt resolution activities for its direct lending for single family and multifamily housing programs as of the end of fiscal year 1995. Most of the debt relates to loans for single family homes.

Table 7: Distribution of RHS' Delinquent Debt as of September 30, 1995

Dollars in millions

Collection activity	Amount
Agency or private collection firm attempting to contact borrower	$ —
In repayment	307
Adjudication, foreclosure, or bankruptcy	860
Collection action terminated or suspended	3
Total	**$1,170**

Source: RHS.

RHS has no debt identified in the first category because the agency did not track how many borrowers it was contacting to determine the reason for delinquent loan payments if payments were not made on time. In addition, RHS policy did not require the use of private collection firms. RHS officials stated that they were currently studying the option of using this tool.

In addition, RHS officials informed us that since most of their debt is tracked by number of borrowers rather than by dollar amount, the amounts shown in repayment were estimates. Dollar amounts were, however, tracked for amounts in adjudication, foreclosure, bankruptcy, and collection action terminated categories.

As table 7 shows, $307 million was in repayment. RHS loan servicing guidance encourages avoiding foreclosure whenever appropriate. RHS officials reported that the agency has many options for getting the borrowers into a repayment status. Borrowers are offered various types of

loan restructurings (e.g., loan extension) to give them an opportunity to make loan payments on time. Borrowers may qualify for a moratorium, also known as forbearance, if their financial hardship is temporary and likely to improve. Under the moratorium program, no payments are required for up to 2 years.

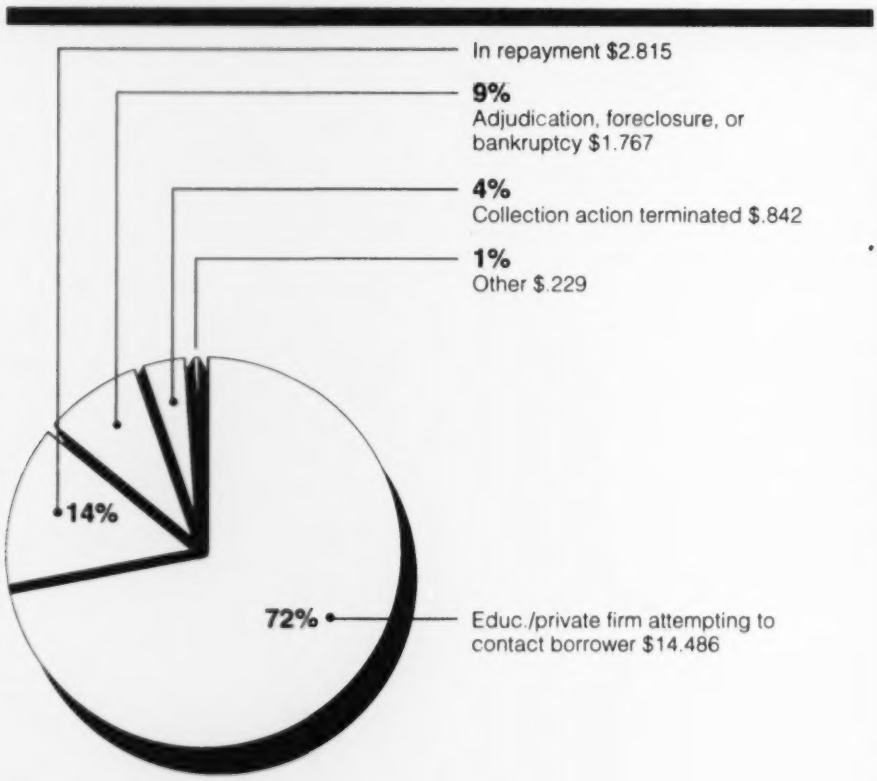
Most of RHS' delinquent debt—about 74 percent—was in bankruptcy, foreclosure, or adjudication. Roughly half of this amount represents amounts for which the borrowers have declared bankruptcy and debt recovery is delayed until bankruptcy proceedings are finalized. The majority of the remaining amounts in this category represent amounts in foreclosure.

Education

Education's defaulted guaranteed loans represent over half of the reported credit program delinquencies and about 40 percent of the federal government's total delinquent nontax debt. Figure 4 categorizes Education's reported $20 billion in delinquent debt as of the end of fiscal year 1995. Table 8 offers an additional data breakout by identifying how much in the four categories is being administered by Education itself versus its agents—state and private non-profit guaranty agencies[9]—with which Education shares its collection process.

[9]Guaranty agencies are responsible for verifying that lenders properly service and attempt to collect loans, making payment to the lending institutions for the guaranteed portion of loans that are terminated for default, and, subsequently, attempting to collect on those defaulted loans. If successful, the guaranty agencies retain a portion of amounts collected, in part to cover their collection costs. They are also reimbursed for certain administrative costs.

Figure 4: Distribution of Education's Delinquent Debt as of September 30, 1995 (Dollars in billions)



Source: Reports on Receivables Due from the Public and other agency schedules.

Table 8: Distribution of Education's Delinquent Debt as of September 30, 1995

Dollars in millions

Collection activity	Guaranty agencies	In-house management	Total amount
Agency or private collection firm attempting to contact borrower	$10,240	$4,246	**$14,486**
In repayment	2,460	355	**2,815**
Adjudication or bankruptcy	1,680	87	**1,767**
Collection action terminated or suspended	140	702	**842**
Other[a]	0	229	**229**
Total	**$14,520**	**$5,619[b]**	**$20,139**

[a]Other debt includes debt owed by borrowers with multiple student loans in various stages of the debt collection process.

[b]Education's Debt Collection Service center records showed an additional $3.6 billion, which includes accumulated interest and other amounts legally due from borrowers being pursued for a total of $9.2 billion.

Source: Department of Education.

Education and the state or private non-profit guaranty agencies were trying to contact and establish repayment agreements with borrowers owing 72 percent of outstanding delinquencies. Although success in getting borrowers into a repayment status was somewhat elusive, Education had collected from some of these borrowers by having Treasury intercept their tax refunds. Education officials told us that the $4.2 billion of the $5.6 billion that Education was managing in-house had cycled through the resolution process several times.

About $2.8 billion, 14 percent, was in repayment status. Education considers borrowers to be repaying if at least two payments were made during the quarter being reported. Education had about $1.8 billion that was in the process of being resolved through bankruptcy or adjudication proceedings and was awaiting the completion of these activities. Debt for which collection action was terminated or suspended totaled $842 million. Reasons for termination include the death or permanent disability of the borrower.

Delinquent student loans are harder to collect than the other types of loans discussed in this report for several reasons. First, unlike the housing loans, student loans are unsecured, leaving the government and private lenders with no collateral. Second, for the loans on which Education itself

is trying to collect, delinquent cases are not received until both lenders and the guaranty agencies have attempted collection, a process which typically lasts at least 4 years after the debt became delinquent. Third, it is more difficult to locate and contact borrowers who frequently relocate after attending post secondary schools, experience name changes in the event of marriage, and, in general, tend to have more frequent changes in residences.

Other federal entities, such as the U.S. Postal Service and the Internal Revenue Service, can assist in finding addresses, but those efforts still leave some gaps. Education's Debt Collection Service sent 3 million delinquency notices to borrowers during 1995. About 662,000 (23 percent) were returned by the U.S. Postal Service as undeliverable. Although the Internal Revenue Service (IRS) was one source for providing more current addresses for about 400,000 of these borrowers, its data could not provide current addresses for about 240,000 borrowers.

Several other problems associated with student loans also make it difficult to collect. Our February 1997 high-risk series report,[10] for example, noted that many student borrowers have little or no means to repay their loans because they attended poor quality proprietary schools that failed to provide them with marketable skills. In addition, we have also reported that, in the past, many student loans were initiated absent important controls critical to mitigating risks up front, including checks to identify prior defaults on the part of applicants.

Notwithstanding the difficulty of finding a segment of the borrower population, some may not respond to notices or may not honor repayment agreements. In the latter cases, the contact process has been reinitiated and involuntary collection measures have been used.

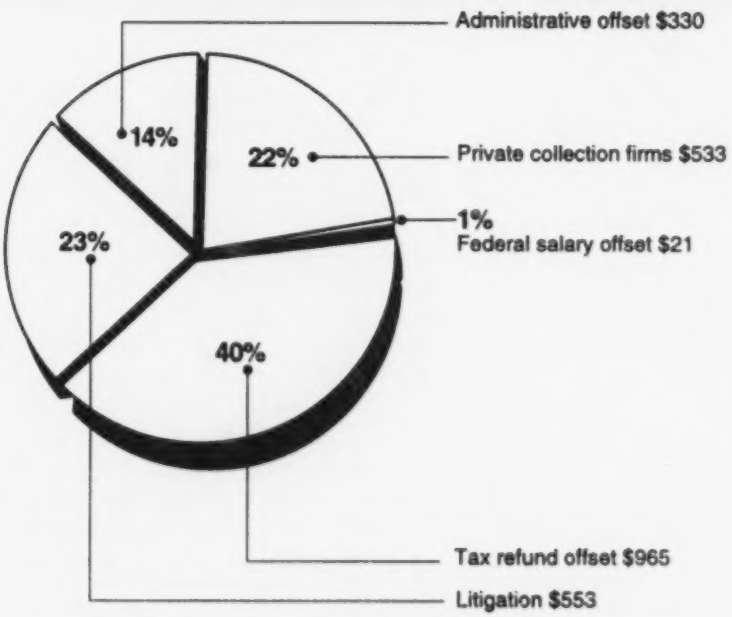
Governmentwide Reporting on Dollars Collected Through Five Specific Tools

In examining each agency's efforts to collect on delinquent debt above, we focused on some of the returns they were able to generate from five mandatory collection tools: tax refund offsets, federal employee salary offsets, administrative offsets, private collection firms, and litigation. At OMB's direction, agencies provided information on collections from these tools. Figure 5 shows that three of these tools—tax refund offsets, litigation, and private collection firms—accounted for more than $2 billion in collections across government—86 percent of the $2.4 billion collected with the five techniques during fiscal year 1995. OMB's report also revealed

[10]High-Risk Series: Student Financial Aid (GAO/HR-97-11, February 1997).

that the use of these five tools generated twice as much in fiscal year 1995 as in fiscal year 1992. Additional information about the tools and related collections is provided in appendix V.

Figure 5: Reported Collections on Delinquent Debt Using Prescribed Tools, Fiscal Year 1995 (Dollars in billions)



Source: Status Report on Credit Management and Debt Collection for fiscal year 1995.

Improving Debt Collection Reporting

In recent years, the Congress has responded to the need to reform government management through such initiatives as the Government Performance and Results Act (GPRA) of 1993 and the Chief Financial Officers (CFO) Act of 1990. GPRA aims to provide systematic information on the performance of government programs and to directly link such information with the annual budget process. The audited financial statements required by the CFO Act, as expanded in 1994, are intended to provide congressional and executive decisionmakers with the reliable financial and program information that they have not previously had. This information is to be provided to decisionmakers in results-oriented reports on the government's program results and financial condition that, for the first time, integrate budget, financial, and program information. These

reports are also to include cost information that add critical information about what citizens and the nation are receiving for each dollar spent.

The 1982 and 1996 debt collection legislation are fully consistent with these managerial concepts and established expectations that agencies will make concerted efforts to collect debt. As mentioned earlier, Treasury's FMS has been charged with new debt management and reporting responsibilities under the Debt Collection Improvement Act of 1996. FMS officials told us that they intend to evolve annual collection reporting to a more evaluative perspective. They envision presenting data on the status of the delinquent debt being worked on, what types of collection mechanisms are being used, the associated costs, and what can be done to increase collection prospects.

Such reporting would offer the Congress better information, would also address some of the underlying principles of GPRA and the CFO Act, and would assist agencies in assessing the effectiveness of their current strategies and identifying other potential strategies for managing or increasing the collection of delinquent debt. Another valuable benefit is that better data and analysis would assist agencies in their day-to-day management of collection activities. Further, FMS could use such performance information on the effectiveness of collection functions in deciding which agencies should be named as debt collection centers. Under the 1996 act, these centers are intended to play a key role in helping FMS manage delinquent debt that other agencies cannot resolve within 180 days after the debt becomes delinquent.

We have identified a number of reporting enhancements that would be valuable for assessing agency debt collection strategies and providing better context for report users. Systematically building upon the available analytical data would help ensure that relevant performance information exists to allow FMS and agencies to continue progressing toward a more business-like debt management environment. In particular, it would be useful in looking at the status of delinquent debts, examining what agencies are doing and how much they are actually trying to collect, and determining if any lessons can be learned or experiences shared by analyzing debt with similar characteristics. Further, addressing quality issues, including whether agencies are reporting on a consistent basis and whether their data are reliable, would be valuable initiatives.

Enhancing Debt Collection Reports

We identified four potential enhancements to annual debt collection reporting to the Congress. The first—developing a framework to highlight

the status of collection efforts—would pinpoint where delinquent debt is in the debt collection process and thus highlight backlogs and help to identify existing collection barriers. The second—assessment of agency use of collection tools—would expand reporting beyond the five tools currently assessed to include information needed to develop performance measures for tracking agency progress. The third—including additional information on the amounts of delinquencies agencies are pursuing—would provide a better sense of the workload managed by agency debt collection functions. The fourth—aggregating information according to program characteristics (e.g., secured housing loans)—would better portray program differences and highlight collection challenges of similar programs. Collectively, such data would provide a reasonable basis for assessments of whether agencies are making concerted efforts to collect delinquent debt.

Status of Delinquent Debt in the Collection Process

While various reporting frameworks could be used to report progress in collecting delinquent loan balances, and thus prospects for collections, a framework such as we discussed earlier would be one approach. Below, we highlight, for each phase of the debt collection process, why developing this information is important.

Attempting to Contact Borrowers: For much of the delinquent debt, the primary challenge is to locate the borrower and/or borrower assets to encourage and arrange for voluntary payments. This challenging task is now standing in the way of efforts to pursue the collection of at least 40 cents of every dollar of delinquent nontax debt that the federal government is reportedly trying to recover. A preponderance of debt in this category could mean that many borrowers are unable to pay or are simply not responding to agency attempts to contact them. By working cooperatively to determine how much debt in this category is attributable to each of these conditions, FMS and agencies could formulate strategies on such matters as whether and when to apply involuntary collection tools.

Delinquent Debt Being Repaid: Knowing how much delinquent debt is being voluntarily repaid is valuable information that could reflect improvement in timely cash receipts for specific programs. Three of the four agencies included in our review can track outstanding debt in repayment status. For example, at September 30, 1995, about 14 percent of Education's delinquent portfolio was in repayment status. In general, fewer resources should be required to service debt in repayment status than to pursue delinquent accounts. Discussion among agency officials on successful strategies to get borrowers to voluntarily pay their debt could

serve as impetus for change by other agencies attempting to collect similar types of debt.

Involuntary Collection Tools: Reporting on secured or unsecured delinquent amounts for which more aggressive collection strategies are underway would also be revealing. The nature of housing programs would suggest that housing delinquencies would normally be resolved through foreclosures or borrower conveyance of the property. However, individual program policies may slow or reduce the amount of debt in this category, such as forbearance programs. Learning how much debt is in this stage compared to other stages could help agencies decide whether any strategic changes are needed in the use of their collection tools. A preponderance of debt in bankruptcy, foreclosure, and litigation, for example, could indicate that all reasonable attempts to persuade borrowers to voluntarily pay have been exhausted. A relatively minor amount in this phase of the collection process could indicate that an agency had encountered restrictions imposed by statutes or agency procedures in using some of these more aggressive initiatives.

Terminating collection: Including information on this phase in the annual debt collection report would offer perspective on amounts no longer being pursued due to death, disability, or expiration of the time limit for collecting the debt. Significant amounts of debt in this category may indicate that the agency has taken a close look at some of their older debt and determined that factors, such as lack of borrower assets, preclude collection or that future collection efforts would not be cost-effective. Alternatively, significant amounts in this category compared to others may mean that an agency may not be doing enough to collect debt.

Use of Collection Tools

As discussed earlier in this report, debt reporting to the Congress currently provides some useful information on the collections from the use of five tools on a governmentwide basis: tax refund offsets, administrative offsets, federal employee salary offsets, private collection firms, and litigation. Enhancing this information would provide agencies with a stronger basis for deciding whether all appropriate actions to collect a debt have been exhausted and thus whether agencies are making concerted efforts to collect delinquent debt. Agency automated information systems capture a variety of program-specific data and may offer potential sources of information needed for assessing the effectiveness of collection strategies. The agencies included in our review presented relatively little information on how effectively they were using those tools in the overviews to their fiscal year 1995 financial statements

under the CFO Act. Instead, the overviews focused primarily on high-level mission goals.

FMS could build upon current reporting on the use of collection tools in several ways in order to provide useful performance information: first, it could increase the number of tools reported on, and second, it could offer data regarding tool use, success, and cost. Some options would include the following.

- *Begin reporting on rescheduling of delinquent debt and garnishment of wages.* For the period January 1, 1995, through September 30, 1995, Education queried its information system and found that $353 million, 69 percent, of the $512 million recovered by collection firms was attributable to rescheduled loan terms. Although the $353 million recovered is significant, a more complete analysis is needed to identify how much was spent to reschedule the debt and identify the expected and actual collections received under the new terms. Assessing the extent to which borrowers continued to pay or actually completed payments without further delinquencies or defaults compared to the costs of establishing such agreements might be a factor in agency collection policies. Relatively high costs of achieving or sustaining repayment agreements could suggest employing more aggressive collection tools sooner. This kind of information could enhance debt management reporting and decision-making by showing the extent to which this tool had been used and how well it was working.

  Education was authorized to use administrative wage garnishments by the Emergency Unemployment Compensation Act of 1991. The Debt Collection Improvement Act of 1996 now allows all agencies to administratively garnish wages. Thus, FMS may want to include information on this important tool in debt collection reports to the Congress as agencies begin to pursue wage garnishments.

- *Require information needed to develop debt collection performance measures.* FMS may want to consider requiring the following information from agencies in order to facilitate the development of performance measures for tracking the use of collection tools. Our work showed that some information of this nature, including the following, is available at some agencies, but only the amount collected through tools had been formally reported to the Congress:
  - number of cases the tool was applied to,
  - amount of delinquent debt dollars these cases represented,

- number of cases for which the agency was successful in applying the tool (for example, how many "hits" were made on the cases submitted for offsets),
- amount collected through the tool, and
- cost of using the tool.

This type of information would allow agency and governmentwide assessments of how actively, successfully, and cost-effectively delinquent debt was being pursued. These types of data elements could be used to develop performance measures such as the following.

- *How many cases and dollars of delinquent debt were submitted for each offset tool compared to the total delinquent debt an agency was attempting to collect*? Tracking this measure year to year could highlight an agency's progress in attempting to increase usage of the tool.
- *How often was the agency successful in applying each tool*? Tracking this year-to- year could show upward and downward progress in applying a specific tool and therefore allow informed decisions on tool use.
- *How much did the agency collect versus the cost of using a tool*? Tracking the return on investment year-to-year could highlight increasing or decreasing effectiveness in using a tool.

Figure 6 illustrates how analyzing the performance of collection tools can assist collections of delinquent debt.

Figure 6: Using Tax Refund Offsets at Education

Of 2.2 million delinquent accounts that Education submitted for IRS tax refund offset, it was able to collect amounts for 25 percent of the accounts (554,000). The average offset was $936 against an average delinquent account balance of $3,000–almost a third of the amount owed. In the aggregate, it collected roughly $518 million and paid $7 per hit, about $3.9 million. According to an Education official, the agency's tax refund offset experience suggests that a significant percent of individuals who are delinquent in paying student loans are employed and could also be good candidates for wage garnishment procedures. Considering how wage garnishment procedures are applied, there is more assurance that amounts will be routinely collected until the debt is repaid. In many respects, a combination of wage garnishment plus tax refund offset is preferable to reliance solely on tax refund offset which relies on debtors being owed a tax refund in future years.

This example suggests that offsets are highly cost effective. Analysis of cost-effectiveness, preferably couched in terms of unit cost per result, would be a highly relevant measure of agency efforts. Measures of the comparative costs and yields from the use of different collection techniques would be useful for managing collection activities at the agencies.

Providing Additional Information on Amounts of Delinquencies Being Pursued

Agencies are required to report on their gross receivables in debt collection reports, which is conceptually the same information that is currently reported in the footnotes to the financial statements (gross receivables, including the associated interest). Because some agencies continue to pursue other relevant amounts, we believe that reporting to the Congress on debt collection should be augmented to include (1) principle and interest that has been written off but that is still being pursued and (2) accrued interest on delinquent debt, presumed uncollectible, that is still being pursued. This additional information is necessary to provide a better picture of what debt is outstanding and amounts that agencies are attempting to collect.

In terms of financial reporting, it is fundamental that agencies make realistic assessments of what they expect to collect.[11] However, agencies also have a duty to have an effective debt management program. Therefore, it is not unexpected that the amount an agency is estimating to be collectible on its financial statements would be different than the amount it is trying to collect on.[12]

This is particularly relevant for student loan debt since Education does not have time limitations for collecting delinquent student loans and continues efforts to collect for extended time frames. In concept, Education could even offset a portion of the social security benefits of delinquent borrowers. Consequently, the financial reporting number used to report to the Congress reflects the agency's gross receivables, not the amount that Education is still pursuing. At the time of our review, Education was still trying to collect $3.6 billion not included in the amounts reported to the Congress.

We believe focusing upon amounts which remain in the collection process would be beneficial primarily because it would offer the Congress a better picture of both what borrowers owe and agencies' debt collection efforts. These data also provide a better basis for calculating recovery rates for delinquent debt. For example, to calculate Education's Debt Collection Service recovery rate, one would compare the amount of collections to the $9.2 billion on which Education was attempting to collect, not to the $5.6 billion that is recorded as a receivable.

Aggregating Information According to Similar Program Characteristics

An additional enhancement that should be considered in the annual debt collection report to the Congress is aggregating the credit data by program characteristics to more appropriately portray program differences and to

[11]This is in accordance with Statement of Federal Financial Accounting Standards Number 1, Accounting for Selected Assets and Liabilities, which states that in preparing financial statements, no interest should be recognized on accounts receivable that are determined to be uncollectible unless the interest is actually collected, and also states that until the interest payment requirement is officially waived by the government entity or the related debt principle is written off, interest accrued on uncollectible accounts receivables should be disclosed.

[12]Writing off a debt from financial records does not preclude an agency from taking advantage of offset possibilities or other means of collection, should they become available. An agency can write off debts from its receivables but at the same time maintain them in debt collection records when the potential exists for offsets against wages or future benefits to the debtor, but the possibility of offset is so uncertain that it does not warrant retaining the debt as a receivable or asset on the financial statements.

An agency determines, as part of its program management, how long it intends to maintain information on its borrowers and how frequently accounts will be reviewed for final disposition. Agencies are required, in accordance with FMS guidance, to report the amount of debt that has been written off but is still being pursued for debt collection.

focus on collection challenges that are applicable to similar programs. The annual debt collection report to the Congress includes governmentwide data by combining data from over 24 agencies and also reports certain data by agency. Grouping governmentwide data into categories similar to those areas used in the annual budget (Analytical Perspectives), which presents an analysis by education, housing agencies, business and rural development, and insurance programs, would provide a better basis for evaluating agency performance and finding alternative solutions for decreasing delinquent debt. Programs providing credit for similar purposes may be experiencing the same types of collection problems and therefore may seek similar strategies or innovations for contacting borrowers and collecting delinquent debt or other functions, such as disposing of properties acquired through foreclosure. For example, housing and other credit programs with secured debt have sought economies of scale in disposing of real property. The interagency Government Owned Real Estate Program conducts joint agency real estate fairs and auctions to facilitate the management and disposal of real property, which has helped reduce individual agency disposition costs.

Resolving Inconsistencies in Classification of Delinquent Debt

Agencies classify previously delinquent debt on which borrowers are currently making payments differently. Some reclassify such debt as "current" but others keep it in a delinquent category regardless of the current payment status. Such inconsistencies do not offer an accurate view of loan portfolios. While such classification practices may be suitable internally, they make it difficult to compare agency performance or aggregate data for similar programs. Examples of inconsistent reporting of these loans are listed below.

- VA loans maintain their delinquent status until the delinquency is repaid or written off. Once the delinquency has been repaid and payments are being made according to the original terms of the loan, the loan is reclassified as current.
- FHA reclassified single family delinquent loans as in a current repayment status when borrowers complied with forbearance terms, which typically included making partial mortgage payments for up to 3 years. More significantly, FHA officials told us that the agency had reported $2.3 billion as delinquent at September 30, 1995, but these officials advised us that their systems did not produce delinquency data consistent with the FMS criteria. They stated that amounts reported as delinquent would have been significantly higher under those guidelines.

- Education did not reclassify most delinquent loans that were in repayment status as current loans. The majority of loans in repayment status maintained their delinquent status until the loan was repaid.[13]

Improving Data Reliability

None of the data submitted to OMB had been validated by financial statement audits because agencies were required to submit data to OMB before their annual financial statement audits were concluded. Three of the four agencies, including FHA, VA, and RHS, submitted unaudited data for fiscal year 1995.[14] While the data from Education were audited, Education's independent accountant disclaimed an opinion due to the unreliability of FFEL Program student loan data. Because there are limited or no assurances concerning the accuracy of the data under these circumstances, appropriate annotations that the data were not audited would alert users of the reports to the limitations. For example, FHA's reported gross receivables after completion of its audit were $800 million more than the amount provided for governmentwide reporting on debt collection.

Our audits, those by the inspectors general, and others have consistently disclosed serious weaknesses in agency systems used to account for and manage receivables. Audits have shown that the information for credit and debt management is not always accurate or complete. Our audits also found that long-standing weaknesses in agency financial management systems used to produce information on credit programs continue to diminish the reliability of amounts being reported to the Congress. The CFO Act is providing the impetus to begin resolving these reliability problems. Reliable data are not only fundamental for good credit management, it would also permit more accurate estimates of the costs of the credit programs in accordance with the Federal Credit Reform Act of 1990.

Conclusion

Improvements in the availability and reporting of data and relevant performance measures are critical to answering the call for a greatly

[13]Some loans that achieved repayment status were restructured and became direct loans. Other loans that achieved repayment status were consolidated and refinanced by a private sector lender with a new loan guarantee. As such, these new direct or refinanced loans were deleted from Education's report to OMB on the status of defaulted guaranteed loans and included in Education's report on direct loans or outstanding guaranteed loans.

[14]FHA received an unqualified (clean) audit opinion after the data were submitted to OMB. RHS received a qualified opinion (as a component of the Rural Economic and Community Development consolidated financial statements) because of insufficient support for credit receivables and other accounts. VA received a qualified opinion due to the inadequacy of hospital system accounting records for net receivables and property plant and equipment.

enhanced debt collection environment. As FMS assumes its managerial and governmentwide reporting responsibilities under the 1996 Debt Collection Improvement Act, it has a good opportunity to make debt reporting more useful to the Congress as well as to those with line management responsibility who are attempting to collect the delinquent debt. Through such improvements, FMS can also ensure that it has reliable and cogent agency data to use for making its own decisions regarding how to proceed with its enhanced management and governmentwide reporting role.

Recommendations

We recommend that the Secretary of the Treasury require the Assistant Commissioner for FMS' Debt Management Services, in conjunction with major credit agencies and OMB, to revise the framework and data requirements for agency reporting on debt collection to ensure that reports to the Congress do the following.

(1)Provide complete reporting on the status of agency efforts to collect delinquent debt. FMS should clearly specify the reporting framework, such as the one discussed in this report, and ensure that it is uniformly followed by reporting agencies. Effective status reporting will offer a clear picture of agency progress in collecting delinquent debt and highlight any significant backlogs in resolution phases meriting administrative action or legislative consideration.

(2)Offer an evaluation of agency use of individual collection tools. This evaluation should include agency and governmentwide assessments of how actively, successfully, and cost effectively agencies are pursuing delinquent debt. At a minimum, data should be available concerning the collection tools predominantly used including (a) the number of cases and the amount of delinquent dollars against which each tool was applied, (b) the number of cases for which the agency was successful in applying the tool, and (c) the cost of using the tool in relation to the dollars collected.

(3)Report amounts that agencies are actually trying to collect. This would include the gross receivable and interest receivable amounts that are currently included in the footnotes to their financial statements, plus (a) principle that has been written off but that is still being pursued and (b) accrued interest on delinquent debt that is still being pursued. The report should also explain differences between these amounts.

(4)Provide information that is reliable based on independent audits and disclose information about the reliability of pertinent account balances that are questioned through audits.

(5)Report delinquent debt consistently from agency to agency or disclose inconsistencies.

(6)Aggregate the credit data by similar program characteristics and provide explanatory information where necessary in order to more appropriately portray program differences and focus on collection challenges unique to similar programs.

Agency Comments and Our Evaluation

In commenting on a draft of this report, officials from the Department of the Treasury, the Office of Management and Budget, and the agencies included in our review generally agreed with our factual material, conclusions, and recommendations.

Treasury's Deputy Assistant Commissioner for Debt Management Services informed us that an action plan was being drafted and will include the establishment of an interagency task force in June 1997. She stated that one of the first projects the task force will work on is the development of governmentwide reporting criteria so that delinquency rates can be more fairly and accurately computed and analyzed.

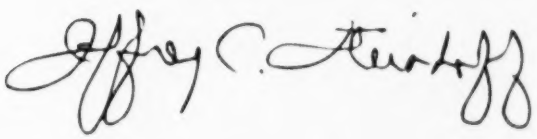
Agencies also provided a number of other comments, including the following.

- Management of the entire credit process—extending credit, account servicing, and recovering delinquent debt—is important and, as our report states, each activity can affect credit program costs.
- Agency data need to be improved in order to accurately assess agency collection performance, evaluate current default rates, or draw comparisons between similar loan programs.
- Consistent application of governmentwide debt collection reporting criteria is essential.
- There are differences in how credit programs operate—for example, secured debt has better recovery options than unsecured debt. Therefore, as our report recommends, governmentwide reports should aggregate data for programs with similar characteristics in order to more appropriately compare agency collection performance.

We are sending copies of this report to relevant congressional committees and subcommittees, the Director of the Office of Management and Budget, the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Housing and Urban Development, the Secretary of the Department of Veterans Affairs, the Secretary of the Department of Education, and other interested parties. We will send copies to others upon request.

If you have any questions or wish to discuss the issues in this report, please contact me at (202) 512-9450. Major contributors to this report are listed in appendix VII.

Sincerely yours,



Jeffrey C. Steinhoff
Director of Planning and Reporting

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Abbreviations

CFO	chief financial officer
FASAB	Federal Accounting Standards Advisory Board
FFEL	Federal Family Education Loan
FHA	Federal Housing Administration
FMS	Financial Management Service
GAO	U.S. General Accounting Office
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
JFMIP	Joint Financial Management Improvement Project
OMB	Office of Management and Budget
PLUS	Parent Loans for Undergraduate Students
RHS	Rural Housing Service
SLS	Supplemental Loans to Students
VA	Department of Veterans Affairs

Scope and Methodology

As agreed with the House Committee on the Budget, our work concentrated on the debt collection phases and did not focus on the credit extension and account servicing phases of federal credit management or on credit reform requirements. We focused on lending program debt at four federal credit agencies, including HUD's Federal Housing Administration Single, Multifamily, and Title I Programs, Education's Federal Family Education Loan Program, the Department of Veterans Affairs' Guaranty and Vendee Loan Programs, and the Department of Agriculture's Rural Housing Service Direct Loan Programs.

For each program, we identified significant applicable legislative and regulatory provisions. We also reviewed recommendations made under the National Performance Review, direct and guaranteed loan system requirements issued by the Joint Financial Management Improvement Program,[1] and recently published federal government accounting standards for direct and guaranteed loans.[2]

To determine the extent of changes in receivables, guaranteed loans, defaults on guaranteed loans, and delinquencies from fiscal years 1992 to 1995—the most recent data available at the program-level at the time of our review—we analyzed data in (1) the annual status reports to the Congress on credit management and debt collection (referred to as annual debt collection reports), (2) OMB's annual Federal Financial Management Status Report and Five-Year Plan, and (3) individual agency and FMS governmentwide summary Reports on Receivables Due from the Public (formerly the SF 220-9)[3] and the Reports on Guaranteed Loans (formerly the SF 220-8).[4] Preliminary information on fiscal year 1996 debt collection activity became available in February 1997, and we incorporated it in this

[1]The Joint Financial Management Improvement Program (JFMIP) is a joint cooperative undertaking of the Office of Management and Budget, the General Accounting Office, the Department of the Treasury, and the Office of Personnel Management that aims to improve and coordinate financial management policies and practices throughout the government.

[2]FASAB publishes recommended accounting standards after considering the financial and budgetary information needs of the Congress, executive agencies, other users of federal financial information, and comments from the public. OMB, Treasury, and GAO then decide whether to adopt the recommended standards; if they do, the standard is published by GAO and OMB and becomes effective.

[3]The Report on Receivables Due from the Public covers the status of outstanding receivables including unpaid principal on direct loans and defaulted guaranteed loans acquired by the government, changes for the period, use of debt collection tools, adjudication activity, and other information.

[4]The Report on Guaranteed Loans covers the status of guaranteed loans, defaulted loans and claims submitted by lenders, the age of and collection probability of outstanding guaranteed loans, and information activities to certify, review, and sanction lenders participating in loan guarantee programs. Also included are real property inventories held by the agencies resulting from loan defaults.

report to the extent practical. We also identified the amount of delinquent debt by agency at September 30, 1990, and September 30, 1996, as separately requested by your office. See appendix VI.

We also obtained information from program and/or agency financial statement audit reports. We used information in the Analytical Perspectives section of the Budget of the United States Government, Fiscal Years 1997 and 1998, and other selected program data used by agencies to manage their credit programs.

To determine progress toward resolving outstanding delinquent debt by the programs reviewed, we reviewed data provided by agency officials describing actions taken to resolve delinquent debt. We reviewed federal debt collection policies, procedures, and guidance including FMS' Managing Federal Receivables and OMB Circular A-129, Policies for Federal Credit Programs and Non-tax Receivables. We identified the debt collection authorities and tools being used for each program we reviewed, and discussed these procedures and actions being taken to resolve delinquent debt with cognizant program officials.

During the course of our review, the Congress passed the Debt Collection Improvement Act of 1996. (See appendix IV for more about this act). We reviewed this act and assessed its governmentwide and agency-level implications on debt collection efforts.

We conducted our work from October 1995 through March 1997 in accordance with generally accepted government auditing standards. We did not verify the accuracy of the information provided to us by OMB, FMS, or the four agencies included in our review. We did however review the results of financial statement audits, as well as seek to determine whether the agencies included in our review reported debt collection information on a consistent basis.

We requested comments on a draft of this report from the Department of the Treasury, the Office of Management and Budget, and the agencies included in our review. At a joint meeting on April 17, 1997, we received

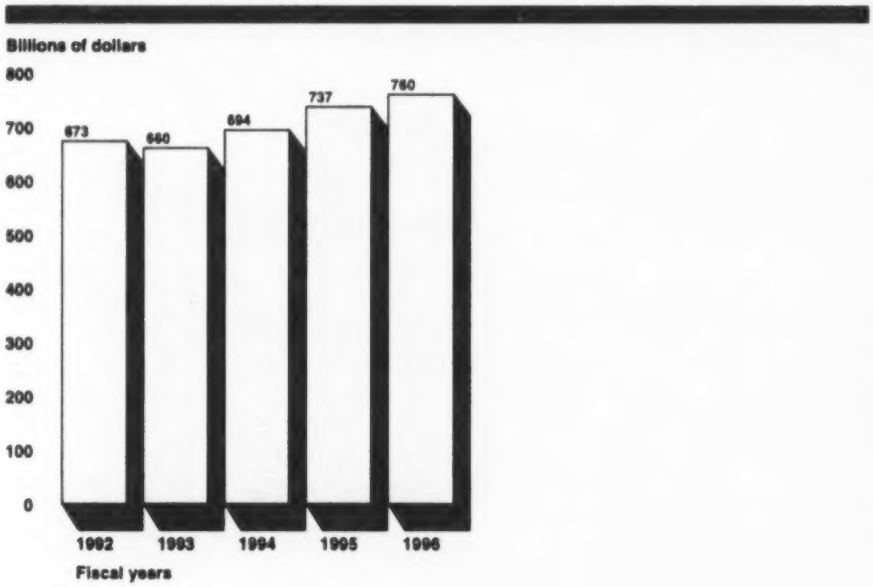
oral comments from those agencies. The agency representatives who provided comments on the draft are listed below.

Agency	Official providing comments
Department of the Treasury	Deputy Chief Financial Officer Deputy Assistant Commissioner for Debt Management Services
Office of Management and Budget	Senior Advisor for Debt Collection and Credit and Cash Management
Department of Education	Special Assistant to the Chief Financial Officer Director of Debt Collection Service
Department of Housing and Urban Development, Federal Housing Administration	Director of the Office of Financial Services
Department of Agriculture, Rural Housing Service	Director of Fiscal Policy of the Office of the Chief Financial Officer Senior Loan Specialist, Rural Housing Service
Veterans Administration	Director of Cost and Debt Management Service Deputy Chief Financial Officer for the Veterans Benefits Administration

Information on Guaranteed Loans

Guaranteed loan programs grew about 13 percent—from $673 billion in fiscal year 1992 to $760 billion in fiscal year 1996. Increased demand for student, housing, and other loans contributed to this growth along with lower interest rates for some programs and funds appropriated by the Congress for marginal program expansion. The government is liable for the risk that it assumes on guaranteed loans. Most loans are guaranteed for a specified maximum based on the loan purpose and amount. Figure 2.1 illustrates the growth of guaranteed loan programs. Figure 2.2 discusses the extent of loan program growth at the agencies we reviewed.[1]

Figure 2.1: Reported Governmentwide Trend in Guaranteed Loans



Source: Debt Collection Reports and FMS.

[1]Our review focused on selected programs at FHA, VA, RHS, and Education, and for those programs, fiscal year 1995 amounts were the most recent available data. Therefore, reported fiscal year 1995 amounts are used for the program-level data throughout this report.

Figure 2.2: Cumulative Balances of Guaranteed Loan Programs From 1992 to 1995 at FHA, RHS, VA, and Education

FHA	Increased from $379 billion to $404 billion. This growth was primarily due to an increase in single family housing loans caused by higher demand resulting from lower interest rates.
RHS	Increased from $100 million to $1.9 billion. The growth at RHS was due to continued emphasis on guaranteed loans to encourage lending by the private sector.
VA	Increased from $160 billion to $179 billion. VA loan programs are entitlement programs, which means that anyone who applied for the programs and met eligibility requirements received a guaranteed loan. The growth in entitlement programs is not limited by annual appropriations. Instead, appropriations are made as needed to cover demand.
Education	Federal Family Education Loan (FFEL) Program guaranteed loans grew from $63 billion to $93 billion. Under the FFEL Program, students meeting eligibility requirements can receive a guaranteed loan, provided they find a lender willing to initiate the loan. Like VA loans, the growth in this entitlement program is not limited by annual appropriations.

Collecting on Delinquent Guaranteed Loans

When guaranteed loans become delinquent, the lending institution, not the government, is required to contact the borrower initially and carry out certain procedures to give the borrower the opportunity to resume making timely payments. If the lender still cannot collect, the loan is considered in default. Once a guaranteed loan defaults, several actions may take place, depending on the nature of the program. If the guaranteed loan is secured,

the lender would normally initiate foreclosure action.[2] The foreclosed property would generally be either (1) sold by the lender, with the government paying the lender for the guaranteed portion of any difference between the amount recovered on the sale and the uncollected portion of the loan principal and interest or (2) turned over to the government, with the government paying the lender for the guaranteed portion of any uncollected loan principal and interest.

Depending on the nature of the guaranteed loan program, funds for covering some or all losses come from loan guarantee or insurance fees charged to borrowers and/or appropriations. For example, the Mutual Mortgage Insurance Fund, which represents almost 80 percent of FHA's basic single-family home ownership program, is required to be fully self-supporting from fees charged to borrowers. In contrast, Education and most other credit agencies receive annual appropriations to cover estimated defaults and other costs.

Payments to lenders for default claims generally result in the establishment of receivables for unsecured loans. When the government makes a payment to a lending institution for a defaulted loan guarantee, the government records a receivable for the amount of the payment and then tries to collect from the borrower, generally using the same methods used for direct loans. If borrowers do not voluntarily resume making timely payments, agencies may use involuntary debt collection tools such as federal salary offset, IRS tax refund offset, and litigation. The tools tracked by OMB are described in appendix V.

If the government is unable to fully collect the amounts it guaranteed and paid, actual program costs[3] are incurred. Under legislation governing the FHA and VA housing programs, which assess insurance fees to cover losses, proceeds from disposition of assets are considered to fully satisfy the debt and the government does not pursue residual amounts due from the borrower. Receivables are recognized when a borrower fraudulently

[2]Not all defaulted guaranteed housing loans have gone into foreclosure. For example, historically, for about 25 percent of the FHA-insured single family loans that have defaulted, borrowers were given an opportunity to avoid foreclosure by qualifying for FHA's Assignment Program. In these cases, FHA paid the mortgage debt owed to the lender, acquired the mortgage from the lender, and developed a new repayment plan for the borrower under which monthly mortgage payments were reduced or suspended for up to 36 months. The loans were included in governmentwide receivables as defaulted guaranteed loans. However, the Congress suspended this program in April 1996 because it was not cost-effective. For more information, see Homeownership: Mixed Results and High Costs Raise Concerns About HUD's Mortgage Assignment Program (GAO/RCED-96-2, October 18, 1995).

[3]The Federal Credit Reform Act of 1990 requires agencies to estimate these costs each fiscal year and budget for them before credit is extended. The agency is to reestimate subsidy costs, generally annually, to incorporate the most recent data on actual and estimated losses and other cost factors.

obtained a loan, or when an agency, such as FHA, sought to avoid certain foreclosures by acquiring loans from the lender and managing the loans itself.

Summary of Efforts to Improve Debt Collection

This appendix summarizes (1) legislative and other efforts taken in the past 15 years to strengthen agencies' debt collection capabilities and to minimize losses, (2) other important initiatives undertaken over the past decade which establish a framework for the credit agencies to strengthen financial management and better measure the results of their operations, and (3) our previous work on debt collection. The most recent legislative effort—the Debt Collection Improvement Act of 1996—is discussed in detail in appendix IV.

Debt Collection Initiatives

Debt Collection Act of 1982 and Amendments: This is one of the most significant pieces of legislation affecting credit management and debt collection. Among other things, the act, which was passed largely in response to our findings and recommendations on debt collection

- clarified federal agencies' authority to use debt collection tools available in the private sector;
- established many of the fundamental credit management practices still in place today—for example, reporting delinquent debtors to consumer reporting agencies and contracting for collection services; and
- established a requirement for OMB to submit an annual report to the Congress on the management of the federal government's debt collection activities.

OMB and Treasury efforts: Following the 1982 act, OMB and the Department of the Treasury increased their focus on and level of involvement in federal credit management programs. In 1986, OMB and Treasury agreed that Treasury would be primarily responsible for overseeing agency credit management activities, while OMB would continue to establish credit management policy, including setting standards for extending credit, managing lenders participating in guaranteed loan programs, servicing credit and nontax receivables, and collecting delinquent debt. Treasury develops and disseminates operational guidelines for agency compliance with governmentwide credit management and debt collection policy.

OMB's nine point credit management program: Also in 1986, OMB set out a nine-point credit management program targeted at further improving federal debt collection practices, reducing delinquencies, and improving management of receivables. The nine-point program required agencies, unless prohibited by legislation, to implement initiatives in each phase of the credit management cycle—loan origination, account servicing, collection, and write-offs. The nine initiatives required the use of

(1) screening of loan applicants for credit-worthiness, (2) account servicing to provide information on the results of credit program operations, (3) credit bureau reporting, (4) private collection contractors, (5) IRS tax refund offset, (6) federal salary offset, (7) loan asset sales, (8) litigation, and (9) write-offs.

Other Legislative and Financial Management Initiatives

The Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994: These acts provide the underpinning for identifying and correcting financial management weaknesses and reliable reporting on the results of financial operations. Moreover, the CFO Act sets up expectations for

- the deployment of modern systems to replace existing antiquated, often manual, processes;
- the development of better performance and cost measures; and
- the design of results-oriented reports on the government's financial condition and operating performance by integrating budget, accounting, and program information.

The Government Performance and Results Act of 1993: The act places emphasis on managing for results and pinpointing opportunities for improved performance and increased accountability. As noted in this report, in crafting the act, the Congress recognized that to be useful, agency performance reports would not only need to document performance levels, but also explain and describe the reasons for any unmet goals and new plans for achieving those goals.

The Federal Credit Reform Act of 1990: Budgetary and accounting requirements for federal credit programs were significantly revised under the Federal Credit Reform Act of 1990. The Federal Credit Reform Act's goals are

- measuring more accurately federal credit program costs,
- placing the costs of credit programs on a budgetary basis equivalent to each other and to other federal spending,
- encouraging the delivery of benefits in the form most appropriate to the needs of beneficiaries, and
- improving the allocation of resources among credit programs and between credit and other spending programs.

Federal Accounting Standards Advisory Board: Accounting standards for federal credit programs were revised in 1993 in accordance with recommendations by the Federal Accounting Standards Advisory Board (FASAB). The revised standards are consistent with provisions of the Federal Credit Reform Act, and require that direct and guaranteed loans be accounted for on a present value basis, fully recognizing actual and expected credit program costs.

Statement of Federal Financial Accounting Standards Number 2, Accounting for Direct Loans and Loan Guarantees, states that because credit programs provide interest subsidies and sustain losses caused by defaults, the costs of these programs are significant. Accounting information called for in this standard provides the basis for evaluating program performance by comparing actual accounting data with estimated budget data for direct loans and loan guarantees.

GAO Work on Federal Debt Collection

GAO has issued numerous reports in the past on federal debt collection activities. In two of our reports on debt collection—Debt Collection: Billions Are Owed While Collection and Accounting Problems Are Unresolved (GAO/AFMD-86-39, May 23, 1986) and Credit Management: Deteriorating Credit Picture Emphasizes Importance of OMB's Nine-Point Program (GAO/AFMD-90-12, April 12, 1990)—we reported that despite increased emphasis by the administration and individual agencies on debt collection activities, the government's overall credit picture had deteriorated, with delinquencies and losses on federal loan and loan guarantee programs continuing to increase. We also reported that agency debt collection efforts were being hampered by accounting systems which often did not provide management with current and accurate information on the status of outstanding debt.

Despite progress in some areas and continued efforts on the part of OMB, Treasury, and the Congress to strengthen overall debt collection procedures, in our September 1995 testimony, Financial Management: Legislation to Improve Governmentwide Debt Collection Practices (GAO/T-AIMD-96-235, September 8, 1995), we again concluded that many federal credit program agencies continued to face long-standing problems in collecting debt.

The Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996, passed by the Congress and signed into law by the President in April 1996, provides significant opportunities for improving agencies' and FMS' ability to collect delinquent debt. Key provisions of this act affecting FMS and agencies are summarized below.

Key Provisions Affecting FMS

- FMS has authority to coordinate debt collection efforts across the federal government.
- FMS has the authority to service the debt of other agencies in-house, designate debt collection centers or private collection contractors to service the debt, or to refer the debt to the Department of Justice for litigation. The centers it can designate to service debt are responsible for centrally administering an array of activities, including debt servicing, collection, compromise, or termination.

  This represents a major change from the existing practice in which agencies handle the debt from origination through resolution, regardless of their success or the time involved. The act requires agencies to transfer delinquent debts to FMS after 180 days. Several noncredit programs, including the Nuclear Regulatory Commission and Federal Trade Commission, have already transferred their delinquent debt to FMS for collection. Some credit agencies expressed reluctance in turning their debt over to FMS during our review. However, since the completion of our work, all four credit agencies included in our review said that they were either in the process of negotiating or were considering the transfer of debt to FMS.

- Responsibilities for reporting on debt collection to the Congress are transferred from the Director of OMB to the Secretary of the Treasury (FMS). The act states that the agencies will now report annually to FMS. The act states that within 3 years of the act, the Secretary of the Treasury is required to report on collection services provided by FMS and other entities collecting on behalf federal agencies. The act also gives the Secretary joint responsibility—with the Attorney General—for program regulations (the Federal Claims Collection Standards), which was previously a joint duty between the Comptroller General and the Attorney General.
- The act also provides resources to FMS and agencies to resolve delinquent debt. FMS is authorized to charge fees for collecting delinquent debt. The act allows for payment of collection fees for delinquent debt to be taken out of amounts collected. In addition, the act provides authority for agencies to retain a portion of collections to be used for improving debt collection activities. The act calls for these amounts to be available to

reimburse agencies for certain debt collection and related expenses. But under the act, the availability of the funds is subject to appropriation, and it is too soon to tell whether this provision will achieve its intent of providing incentives to agencies to increase the collection of delinquent debt.

Table IV.1: Key Provisions Affecting Federal Agencies

Subject	Requirements of the Debt Collection Act of 1982 and amendments	Requirements of the Debt Collection Improvement Act of 1996
Contracting for debt collection services.	Agencies were generally authorized to contract for debt collection services through the General Services Administration.	Treasury is required to maintain a schedule of private sector contractors and agencies are required to use those contractors.
Offsetting salaries of federal employees who owe delinquent debt.	Authority provided but not required under the 1982 act.	Requires agencies to participate in an annual matching of records to identify federal employees delinquent on federal debts.
Reporting information on an individual's delinquent debt to credit bureaus.	This was authorized but not mandatory in the 1982 act and only covered delinquent debt.	Agencies are required to report information about an individual's delinquent debts. Agencies have the option to report nondelinquent individual debt and all commercial debt to credit reporting agencies.
Using administrative offsets.	This was authorized but not mandatory under the 1982 act.	Provides authority for disbursing officials to conduct offsets and requires referral of debts over 180 days delinquent to Treasury for offset.
Using administrative wage garnishment.	Not specifically authorized.	Specifically authorized and required, as appropriate.
Screening loan applicants.	Authority provided but not required.	Agencies are required to deny credit to those who owe delinquent debt to the federal government. With certain exceptions, such as a borrower with outstanding IRS debt, agencies must refuse credit to a delinquent credit applicant.
Referring delinquent debts for IRS tax refund offset.	Agencies were required to refer delinquent debts to IRS at least annually.	Agencies are required to refer delinquent debts to FMS for the purpose of offsetting any payments, including tax refunds.
Closing out debt to IRS as income to the debtor.	Required of federal executive agencies.	All agencies may close out debts through FMS.
Requiring taxpayer identification numbers.	Required for those borrowing from credit agencies.	Required from all those doing business with the federal government.
Publicly disseminating information regarding the identity of a person and the delinquent nontax debt.	Not specifically authorized.	Specifically authorized by statute.
Allowing the Departments of Labor and Health and Human Services to release information to agencies and their agents on employer and government data for the purpose of collecting and reporting delinquent debt.	Not specifically authorized.	Specifically authorized by statute.

Applicability of the Act

As was the case for the 1982 legislation, the 1996 act does not apply to IRS, Customs Service, or Social Security Administration debt; however, these

entities are participants in assisting agencies to collect debt. The 1982 act covered the executive and legislative branch agencies, and the 1996 act also includes the judicial branch.

Tools Tracked and Reported

This appendix provides more information about the involuntary collection tools tracked by agencies and included in the annual debt collection report to the Congress.

Tax Refund Offset Program

Tax refund offsets resulted in $965 million in collections for fiscal year 1995—40 percent of the total collections of the five tools. This program allows income tax refunds to be offset against delinquent amounts owed to the federal government. Since the tax refund offset began in 1986, the government has recovered more than $6 billion.

Litigation

Litigation resulted in $553 million in collection for fiscal year 1995—23 percent of the total collections of the five tools. Delinquent debts which cannot be collected through other means can be referred to the Department of Justice for litigation. In addition to the $553 million in collections, agencies reported $121 million in non-monetary settlements recovered by Justice.

Private Collection Firms

Private collection firms brought in $533 million in fiscal year 1995—22 percent of the total of the five tools. Of the $533 million collected, $512 million pertained to collections on student loans.

Administrative Offset Program

Administrative offsets resulted in $330 million in collections in fiscal year 1995—14 percent of the total for the five tools. Agencies are authorized to collect delinquent debt on behalf of other agencies by withholding or offsetting payments due to, or monies held by, the federal government for the debtor.

Federal Employee Salary Offset

Federal employee salary offsets resulted in $21 million in collections in fiscal year 1995—just 1 percent of the total for the five tools. Under this program, delinquent accounts are matched against the federal personnel rosters to identify employees delinquent on federal debts. Where matches are made, 15 percent of a federal employee's disposable income, less amounts required by law to be withheld, may be offset against delinquent amounts due.

Amount of Reported Delinquent Debt by Agency at September 30, 1990 and September 30, 1996

Dollars in millions

Department/Agency	Delinquencies 9/30/90	Delinquencies 9/30/96	Change from 1990 to 1996
U.S. Department of Agriculture	$16,695	$8,758	$-7,937
Department of Commerce	294	97	-197
Department of Defense	1,667	3,369	1,702
Education[a]	9,882	19,156	9,274
Department of Energy	1,518	2,377	859
Health and Human Services	1,123	3,783	2,660
Social Security Administration	[b]	331	331
Department of Housing and Urban Development	2,206	2,282	76
Department of the Interior	527	438	-89
Department of Justice	324	101	-223
Department of Labor	239	95	-144
Department of Transportation	923	160	-763
Treasury (less IRS)	383	508	125
Department of Veterans Affairs	3,851	2,462	-1,389
Agency for International Development	860	794	-66
Small Business Administration	1,870	2,031	161
Export-Import Bank	1,773	2,451	678
All other	1,290	2,077	787
Total	**$45,425**	**$51,270**	**$5,845**

[a]Because of the nature of the Federal Family Education Loan Program, almost all of Education's receivables are at least 270 days delinquent when acquired from guaranty agencies.

[b]The Social Security Administration was part of Health and Human Services at September 30, 1990.

Source: OMB Debt Collection Reports and FMS. This information was not independently verified by GAO.

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